

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Charter Township of East China, Michigan	County St. Clair
Audit Date 12/31/04	Opinion Date 6/16/05	Date Accountant Report Submitted to State: 6/29/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple PC			
Street Address 1979 Holland Avenue	City Port Huron	State MI	ZIP 48060
Accountant Signature 		Date 6/29/05	

CHARTER TOWNSHIP OF EAST CHINA, MICHIGAN

**ANNUAL FINANCIAL REPORT
with Supplementary Information**

**FOR THE YEAR ENDED
DECEMBER 31, 2004**

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



CHARTER TOWNSHIP OF EAST CHINA, MICHIGAN

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CHARTER TOWNSHIP OF EAST CHINA, MICHIGAN

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INDEPENDENT AUDITOR'S REPORT

To the Supervisor and Members
of the Township Board
Charter Township of East China
St. Clair County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the remaining fund information of the Charter Township of East China, Michigan, as of and for the year ended December 31, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of East China's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Charter Township of East China, Michigan, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 18 to the basic financial statements, the Township adopted Governmental Accounting Statement Board Statement No. 34 and related statements as of and for the year ended December 31, 2004. This resulted in a change in the Township's basic financial statement format and content.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2005 on our consideration of the Charter Township of East China's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of those testings, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8, and schedules of budgetary comparisons on pages 44 and 45 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of East China's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedure applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Certified Public Accountants

June 16, 2005

OVERVIEW OF THE FINANCIAL STATEMENTS

The Charter Township of East China's 2004 annual report is presented in conformity with the requirements of GASB 34. This annual report consists of four parts – management's discussion and analysis, the basic financial statements, required supplementary information, and other supplemental information, which presents combining statements for nonmajor governmental funds and component unit information. The basic financial statements include two kinds of statements that present different views of the Township. The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the Township's government, reporting the Township's operations in more detail than the government-wide statements.

Government-wide Financial Statements

The government-wide statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid (full accrual).

The two government-wide statements report the Township's net assets and how they have changed. Net assets, defined as the difference between the Township's assets and liabilities, are one way to measure the Township's financial health or position.

The government-wide financial statements of the Township are divided into two categories:

Governmental activities – most of the Township's basic services are included here, such as the police, fire, public works, and general administration. Property taxes, state-shared revenue, and charges for services, provide most of the funding.

Business-type activities – the Township charges fees to customers to help it cover the costs of certain services it provides. The Township's water and sewer operations are treated as business-type activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the Township's most significant funds; not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The Township Board establishes other funds to control and manage money for particular purposes.

The Township has four kinds of funds:

Governmental Funds - Most of the Township's basic services are included in governmental funds, which focus on how cash and other financial assets can readily be converted to cash flow in and out, and the balances left at year end that are available for spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs.

Proprietary Funds – are used to report services for which the Township charges customers a fee for those services. The Township has two enterprise funds, the Water and Sewer Funds.

Internal Service Funds – report activities that provide services and supplies to other Township programs. The Township utilizes a Department of Public Works internal service fund.

Fiduciary Funds – The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Township’s fiduciary activities are reported in a separate statement of assets and liabilities. We exclude these activities from the Township’s government-wide financial statements because the Township cannot use these assets to finance its operations.

FINANCIAL OVERVIEW (Government-wide financial analysis)

The Township has combined total net assets of \$14,757,721. This is an increase of \$343,987 over 2004. Government-type activities comprise \$4,594,412, and business-type activities make up \$10,163,309 of the total net assets. In a condensed format, the table below shows net assets as of the December 31, 2004. Future reports will provide comparative data.

In Thousands

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Current assets	\$ 3,506	\$ 1,118	\$ 4,624
Restricted assets	-	325	325
Noncurrent assets	<u>2,813</u>	<u>13,945</u>	<u>16,759</u>
Total assets	<u>6,319</u>	<u>15,388</u>	<u>21,708</u>
Liabilities			
Current liabilities	1,553	111	1,664
Liabilities payable from			
Restricted assets	-	567	567
Long-term liabilities	<u>172</u>	<u>4,547</u>	<u>4,719</u>
Total liabilities	<u>1,725</u>	<u>5,225</u>	<u>6,950</u>
Net Assets			
Invested in capital assets –			
Net of related debt	2,813	9,041	11,854
Restricted	630	5	635
Unrestricted	<u>1,151</u>	<u>1,117</u>	<u>2,268</u>
Total net assets	<u>\$ 4,594</u>	<u>\$ 10,163</u>	<u>\$ 14,757</u>

The Township governmental activities experienced a net change in assets of \$334,900. The main reasons are that the general and capital project funds experienced revenues over expenditures of \$76,385 and \$316,465 respectively.

The following table shows the changes in net assets for 2004. Future reports will provide comparative data for the statement of activities.

In Thousands	Governmental Activities	Business-type Activities	Total
Revenue			
Program revenue:			
Charges for services	\$ 147	\$ 1,242	\$ 1,389
Operating grants and contributions	2	-	2
Capital grants and contributions	36	56	92
General revenue:			
Property taxes	1,399	323	1,722
Unrestricted grants	273	-	273
Unrestricted investment earnings	43	14	57
Transfers	(73)	73	-
Total Revenue	<u>1,827</u>	<u>1,708</u>	<u>3,535</u>
Program Expenses			
General government	563	-	563
Public safety	330	-	330
Public works	296	-	296
Recreation and cultural	257	-	257
Other activities	35	-	35
Interest on Debt	11	-	11
Water and sewer	-	1,701	1,701
Total Program Expenses	<u>1,492</u>	<u>1,701</u>	<u>3,193</u>
Changes in net assets	<u>\$ 335</u>	<u>\$ 7</u>	<u>\$ 342</u>

Governmental Activities

Revenues for governmental activities totaled \$1,899,109 in 2004. Of this amount, \$1,398,971 was received from taxes, which was an increase of \$156,916 from the prior year. The next largest revenue sources was state revenue \$292,155, a decrease of \$116,630 from 2003, and licenses and permits of \$110,533, an increase of \$23,690.

Business-type Activities

The Township has two business-type activities, the water and sewer operations. Total revenues including interest income and transfers was \$1,708,020 and expenses were \$1,698,933 for a change in net assets of \$9,087. This included a transfer in from the governmental fund of \$72,733.

FINANCIAL ANALYSIS OF MAJOR TOWNSHIP FUNDS AND BUDGETS

Governmental Fund

The General fund ended 2004 with a fund balance of \$378,458, with \$79,948 reserved for prepaid expenditures, \$58,225 designated for tax appeal, with the remaining balance of \$240,285 unreserved/undesignated. The general fund balance increased \$76,385 from the prior year mainly as a result of the Legal Fee Litigation expenditure being \$40,000 less than budgeted and transfer out being \$58,227 less than budgeted. The Townships other major governmental funds had the following revenues over (under) expenditures as follows:

- Township Improvement Fund had revenues in excess of expenditures of \$13,780 due to no expenditures incurred in this fund.
- Capital Projects Fund had revenues in excess of expenditures of \$264,982 due to property taxes of \$313,098 collection with only \$60,624 of capital outlay.

The General Fund budget was amended throughout the year as deemed necessary, primarily to prevent over expenditure. The following significant amendments were made during the year.

- The Office Manager department was created therefore amending the budget to increase from \$0 to \$59,540. Due to the new department, the Extended Clerk Activities department was eliminated thus the budget was decreased from \$45,266 to \$0.

The Public Improvement Fund budget was reduced by \$30,000 to allow for designation of funds for court litigation.

Business-type Activities

As indicated earlier the Township only has two business-type activities, the water and sewer operations. Total revenues amounted to \$1,708,020 for 2004 and expenses were \$1,700,277 for an increase in net assets of \$7,243.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Township had \$16.6 million dollars invested in capital assets for its government and business-type activities (net of accumulated depreciation) as of December 31, 2004. The investment is a capital asset includes land, land improvements, buildings and improvements, machinery and equipment, and water and sewer lines. During the year the Township added \$319,198 of capital assets, \$111,971 in the government activities and \$207,227 in the business-type activities. Of the governmental activities \$60,000 was for a new backhoe in the Internal Service Fund (Department of Public Works Fund,) which is reported as governmental activities, with the remaining purchases for bike paths, cemetery building and copier. Most of the business-type activities were a result of replacing water plant modules.

	Governmental Activities	Business-type Activities	Total
Land	\$ 124,442	\$ 72,530	\$ 196,972
Land improvements	2,490,138	-	2,490,138
Building and Improvements	1,010,958	7,992,885	9,003,843
Equipment	548,870	684,323	1,233,193
Water and sewer	-	12,016,898	12,016,898
	4,174,408	20,766,636	24,941,044
Accumulated depreciation	(1,361,105)	(6,911,551)	(8,272,656)
	<u>\$ 2,813,303</u>	<u>\$ 13,855,085</u>	<u>\$ 16,668,388</u>

Additional information on the Township's capital assets can be found in Note 8.

Long-Term Debt

At December 31, 2004 the Township's had \$4,966,349 in long-term debt compared to \$5,321,694 at December 31, 2003, a decrease of \$355,345 from the prior year. The following table shows the long-term debt at December 31, 2004:

	Governmental Activities	Business-Type Activities
Sewage Disposal System Contract Payable	\$ 114,432	\$ -
Environmental Quality Bond Contract Payable	-	4,788,934
Compensated Absences	57,409	5,574
	<u>\$ 171,841</u>	<u>\$ 4,794,508</u>

ECONOMIC FACTORS AND NEXT YEARS BUDGET

For 2005, the Township Board adopted a general fund budget with estimated revenues of \$1,433,025 and expenditures of \$1,448,965. This is approximately a 6% increase of expenditures from the 2004 budget and will result in a reduction of \$15,940 in fund balance. Although local municipalities in the State of Michigan have seen State Shared Revenues decrease significantly during the past few years, the 2005 budget does not anticipate any significant cuts. The increase in expenditures is expected to be basically stable with no anticipated major increases.

During the first part of 2005, the Township Board increased water rates by approximately 9.12% and sewer rates by approximately 4.79%. One of the major projects for the summer of 2005 is the painting of one of the water towers.

CONTACTING THE TOWNSHIP

This financial report is designed to provide a general overview of the Township's finances to our residents and other interested parties in understanding the Township's financial condition. If you have questions about this report or need additional financial information, please contact the Township at (810) 765-8879.

BASIC FINANCIAL STATEMENTS

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

STATEMENT OF NET ASSETS
DECEMBER 31, 2004

	Primary Government			
	Governmental Activities	Business Type Activities	Total	Component Units
ASSETS:				
Cash and cash equivalents	\$ 254,574	\$ 7,471	\$ 262,045	\$ 37,411
Investments	1,854,268	812,094	2,666,362	636,146
Receivables (net of allowance)	1,307,593	226,241	1,533,834	15,297
Due from primary government	-	-	-	64,485
Deposit with authority	-	48,900	48,900	-
Inventory	-	8,085	8,085	-
Prepaid expenses	89,759	15,275	105,034	159
Restricted Assets -				
Cash and cash equivalents	-	51,497	51,497	-
Taxes receivable	-	270,416	270,416	-
Investments	-	3,167	3,167	-
Other Assets -				
Advance to component unit	-	90,318	90,318	-
Capital assets (net of accumulated depreciation)				
Assets not being depreciated	124,442	72,530	196,972	-
Assets being depreciated	2,688,861	13,782,555	16,471,416	-
Total Assets	<u>6,319,497</u>	<u>15,388,549</u>	<u>21,708,046</u>	<u>753,498</u>
LIABILITIES:				
Payables and accrued liabilities	124,273	8,675	132,948	44,833
Accrued interest	1,316	3,288	4,604	-
Advances and deposits	4,326	7,999	12,325	56,000
Deferred revenue	1,423,329	-	1,423,329	-
Bond payable (current)	-	27,152	27,152	-
Due to component unit	-	64,485	64,485	-
Liabilities Payable From Restricted Assets				
Bonds payable (current)	-	220,610	220,610	-
Deferred revenue	-	319,642	319,642	-
Accrued interest	-	26,643	26,643	-
Non-current liabilities				
Due in more than one year				
Contracts payable	114,432	4,541,172	4,655,604	-
Advance from primary government	-	-	-	90,318
Accrued sick leave	57,409	5,574	62,983	61,910
Total Liabilities	<u>1,725,085</u>	<u>5,225,240</u>	<u>6,950,325</u>	<u>253,061</u>
NET ASSETS:				
Investment in capital assets, net of related liabilities	2,813,303	9,041,658	11,854,961	-
Restricted				
Debt Retirement	4,056	4,601	8,657	-
Cemetery perpetual care				
Nonexpendable	44,372	-	44,372	-
Capital projects	581,447	-	581,447	-
Unrestricted	1,151,234	1,117,050	2,268,284	500,437
Total Net Assets	<u>\$ 4,594,412</u>	<u>\$ 10,163,309</u>	<u>\$ 14,757,721</u>	<u>\$ 500,437</u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF EAST CHINA

St. Clair County, Michigan

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2004

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General Government	\$ 562,995	\$ 48,708	\$ -	\$ -
Public Safety	334,675	93,335	689	-
Public Works	295,798	825	1,262	-
Recreation and Culture	256,867	3,700	-	35,561
Other Activities	29,987	-	-	-
Interest on Long Term Debt	11,154	-	-	-
Total governmental activities	<u>1,491,476</u>	<u>146,568</u>	<u>1,951</u>	<u>35,561</u>
Business type activities				
Water Fund	910,611	611,389	-	56,255
Sewer Fund	790,166	629,955	-	-
	<u>1,700,777</u>	<u>1,241,344</u>	<u>-</u>	<u>56,255</u>
Total Primary Government	<u>3,192,253</u>	<u>1,387,912</u>	<u>1,951</u>	<u>91,816</u>
Component Units				
Sewer/Water Authority	1,003,239	1,003,239	-	93,000
Brownfield Development Authority	<u>5,374</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Component Units	<u>1,008,613</u>	<u>1,003,239</u>	<u>-</u>	<u>93,000</u>

General revenues:

Property taxes

Grants and contribution not -
restricted to specific programs

Unrestricted investment income

Transfers

Total general revenues and transfers

Change in net assets

Net assets at beginning of year as restated

Net assets at end of year

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Change in Net Assets

Primary Government		Total	Component Units
Governmental Activities	Business Type Activities		
\$(514,287)	\$ -	\$(514,287)	\$ -
(240,651)	-	(240,651)	-
(293,711)	-	(293,711)	-
(217,606)	-	(217,606)	-
(29,987)	-	(29,987)	-
(11,154)	-	(11,154)	-
<u>(1,307,396)</u>	<u>-</u>	<u>(1,307,396)</u>	<u>-</u>
-	(242,967)	(242,967)	-
-	(160,211)	(160,211)	-
<u>-</u>	<u>(403,178)</u>	<u>(403,178)</u>	<u>-</u>
<u>(1,307,396)</u>	<u>(403,178)</u>	<u>(1,710,574)</u>	<u>-</u>
-	-	-	93,000
-	-	-	<u>(5,374)</u>
-	-	-	<u>87,626</u>
1,398,971	323,376	1,722,347	26,752
272,867	-	272,867	-
43,191	14,312	57,503	10,329
<u>(72,733)</u>	<u>72,733</u>	<u>-</u>	<u>-</u>
<u>1,642,296</u>	<u>410,421</u>	<u>2,052,717</u>	<u>37,081</u>
334,900	7,243	342,143	124,707
<u>4,259,512</u>	<u>10,156,066</u>	<u>14,415,578</u>	<u>375,730</u>
<u>\$ 4,594,412</u>	<u>\$ 10,163,309</u>	<u>\$ 14,757,721</u>	<u>\$ 500,437</u>

CHARTER TOWNSHIP OF EAST CHINA

St. Clair County, Michigan

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	<u>General</u>	<u>Township Improvement</u>	<u>Capital Project</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Assets:					
Cash and cash equivalents	\$ 181,011	\$ 3,416	\$ 36,796	\$ 28,402	\$ 249,625
Investments	239,273	778,020	589,992	114,223	1,721,508
Receivables -					
Property taxes (net of allowance)	913,423	-	180,307	99,299	1,193,029
Interest and accounts	111,626	2,211	-	-	113,837
Special assessments	-	-	-	727	727
Prepaid Expenditures	<u>79,948</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>79,948</u>
Total Assets	<u>\$ 1,525,281</u>	<u>783,647</u>	<u>807,095</u>	<u>\$ 242,651</u>	<u>\$ 3,358,674</u>
Liabilities:					
Accounts payable	\$ 45,263	-	12,518	\$ 75	\$ 57,856
Accrued liabilities	4,412	-	-	2,092	6,504
Advances and deposits	4,326	-	-	-	4,326
Due to employees	-	-	-	25,366	25,366
Due to other governmental units	-	-	-	20,350	20,350
Deferred revenue	<u>1,092,822</u>	<u>-</u>	<u>213,130</u>	<u>117,377</u>	<u>1,423,329</u>
Total Liabilities	<u>1,146,823</u>	<u>-</u>	<u>225,648</u>	<u>165,260</u>	<u>1,537,731</u>
Fund Balances:					
Reserved -					
Prepays	79,948	-	-	-	79,948
Debt service	-	-	-	4,056	4,056
Capital projects	-	-	411,292	-	411,292
Perpetual care	-	-	-	44,372	44,372
Unreserved -					
Designated -					
Tax appeal	58,225	30,000	170,155	-	258,380
Undesignated -					
General Fund	240,285	-	-	-	240,285
Special Revenue Funds	<u>-</u>	<u>753,647</u>	<u>-</u>	<u>28,963</u>	<u>782,610</u>
Total Equity	<u>378,458</u>	<u>783,647</u>	<u>581,447</u>	<u>77,391</u>	<u>1,820,943</u>
Total Liabilities and Fund Equity	<u>\$ 1,525,281</u>	<u>\$ 783,647</u>	<u>\$ 807,095</u>	<u>\$ 242,651</u>	<u>\$ 3,358,674</u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
ON THE STATEMENT OF NET ASSETS
DECEMBER 31, 2004**

Fund Balances - total governmental funds	\$ 1,820,943
--	--------------

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds.

Capital assets	3,606,800
Accumulated depreciation	(1,057,130)

Internal Service Fund used by management to charge cost of the Townships department of public works activities. The assets and liabilities of the internal service fund (department of public works) is included in governmental activities in the statement of net assets.	366,789
--	---------

Long - term liabilities, including bonds payable, are not due and payable
in the current period and therefore are not reported in the funds.

Contracts payable	(114,432)	
Accrued sick payable	(27,242)	
Accrued interest	(1,316)	(142,990)

Net Assets of governmental activities	\$ <u>4,594,412</u>
---------------------------------------	---------------------

The notes to the financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	General	Township Improvement	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 960,092	\$ -	\$ 313,098	\$ 125,781	\$ 1,398,971
Licenses and permits	18,871	-	-	91,662	110,533
Intergovernmental -					
Federal/State	256,594	-	35,561	-	292,155
Charges for services	36,954	-	-	-	36,954
Interest and rent	21,561	13,780	9,037	2,317	46,695
Other	8,640	-	-	2,498	11,138
Total Revenues	<u>1,302,712</u>	<u>13,780</u>	<u>357,696</u>	<u>222,258</u>	<u>1,896,446</u>
Expenditures:					
Current -					
General Government	521,385	-	-	-	521,385
Public Safety	253,847	-	-	80,828	334,675
Public Works	211,179	-	-	-	211,179
Recreation and Cultural	121,579	-	-	-	121,579
Other Activities	29,987	-	-	-	29,987
Capital Outlay	18,699	-	60,624	-	79,323
Debt Service					
Principal	-	-	-	114,432	114,432
Interest	-	-	-	12,460	12,460
Total Expenditures	<u>1,156,676</u>	<u>-</u>	<u>60,624</u>	<u>207,720</u>	<u>1,425,020</u>
Excess of revenues over expenditures	<u>146,036</u>	<u>13,780</u>	<u>297,072</u>	<u>14,538</u>	<u>471,426</u>
Other Financing Sources (Uses):					
Transfers from other funds	992	-	-	-	992
Transfers to other funds	(70,643)	-	(32,090)	(992)	(103,725)
Total Other Financing Sources (Uses)	<u>(69,651)</u>	<u>-</u>	<u>(32,090)</u>	<u>(992)</u>	<u>(102,733)</u>
Excess of revenues and other sources over expenditures and other uses	<u>76,385</u>	<u>13,780</u>	<u>264,982</u>	<u>13,546</u>	<u>368,693</u>
Fund Balances at beginning of year	246,000	769,867	316,465	63,845	1,396,177
Prior period adjustment	<u>56,073</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>56,073</u>
Fund Balances at beginning of year as restated	<u>302,073</u>	<u>769,867</u>	<u>316,465</u>	<u>63,845</u>	<u>1,452,250</u>
Fund Balances at end of year	<u>\$ 378,458</u>	<u>\$ 783,647</u>	<u>\$ 581,447</u>	<u>\$ 77,391</u>	<u>\$ 1,820,943</u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
DECEMBER 31, 2004**

Net change in fund balances - total governmental funds		\$	368,693
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.			
Capital outlay			48,424
Depreciation expense		(147,117)
Internal service fund used by management to charge costs of the Township's department of public works activities. The net revenues (expenses) attributable to those funds is reported with governmental activities.			
		(51,956)
Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however has no effect on net assets.			
Principal payments on long term liabilities	114,432		
Increase in accrued sick payable	1,117		
Decrease in accrued interest	1,307		
			<u>116,856</u>
Change in net assets of governmental activities		\$	<u><u>334,900</u></u>

The notes to the financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2004

	Business Type Activities-Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
ASSETS:				
Current Assets:				
Cash and cash equivalents	\$(12,510)	\$ 19,981	\$ 7,471	\$ 4,949
Investments	5	812,089	812,094	132,760
Account receivable-				
Utility Charges	109,639	112,538	222,177	-
Connections Fees	-	576	576	-
Other	917	-	917	-
Interest receivable	-	2,571	2,571	-
Deposit with authority	16,000	32,900	48,900	-
Inventory	8,085	-	8,085	-
Prepaid expenses	1,305	13,970	15,275	9,811
Total Current Assets	<u>123,441</u>	<u>994,625</u>	<u>1,118,066</u>	<u>147,520</u>
Restricted Assets:				
Cash and cash equivalents	51,497	-	51,497	-
Investments	3,167	-	3,167	-
Taxes receivable	270,416	-	270,416	-
	<u>325,080</u>	<u>-</u>	<u>325,080</u>	<u>-</u>
Property, Plant and Equipment:				
Land	36,054	36,476	72,530	-
Buildings and improvement	566,710	7,426,175	7,992,885	122,297
Utility System	9,610,870	2,406,028	12,016,898	-
Machinery and equipment	222,432	461,891	684,323	445,311
	<u>10,436,066</u>	<u>10,330,570</u>	<u>20,766,636</u>	<u>567,608</u>
Less - accumulated depreciation	(2,526,199)	(4,385,352)	(6,911,551)	(303,975)
	<u>7,909,867</u>	<u>5,945,218</u>	<u>13,855,085</u>	<u>263,633</u>
Other Assets:				
Advance to component unit	-	90,318	90,318	-
Advance to other funds	-	350,000	350,000	-
	<u>-</u>	<u>440,318</u>	<u>440,318</u>	<u>-</u>
Total Assets	<u>\$ 8,358,388</u>	<u>\$ 7,380,161</u>	<u>\$ 15,738,549</u>	<u>\$ 411,153</u>

	Business Type Activities-Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
LIABILITIES:				
Current Liabilities:				
Accounts payable	\$ 1,954	\$ 1,941	\$ 3,895	\$ 2,546
Deposits Payable	-	7,999	7,999	-
Accrued Liabilities	1,734	3,046	4,780	11,651
Accrued interest	3,288	-	3,288	-
Due to component unit	23,203	41,282	64,485	-
Contracts payable (current portion)	27,152	-	27,152	-
Total Current Liabilities	<u>57,331</u>	<u>54,268</u>	<u>111,599</u>	<u>14,197</u>
 Current Liabilities - (Payable from restricted assets):				
Deferred revenue	319,642	-	319,642	-
Accrued interest	26,643	-	26,643	-
Contracts payable (current portion)	220,610	-	220,610	-
	<u>566,895</u>	<u>-</u>	<u>566,895</u>	<u>-</u>
 Long-Term Liabilities (less current portions):				
Bonds payable	4,541,172	-	4,541,172	-
Advance from other funds	350,000	-	350,000	-
Accrued sick pay	1,929	3,645	5,574	30,167
Total Long-Term Liabilities	<u>4,893,101</u>	<u>3,645</u>	<u>4,896,746</u>	<u>30,167</u>
Total Liabilities	<u>5,517,327</u>	<u>57,913</u>	<u>5,575,240</u>	<u>44,364</u>
 NET ASSETS:				
Investment in capital assets, net of related liabilities	3,096,440	5,945,218	9,041,658	263,633
Reserved - Debt Retirement	4,601	-	4,601	-
Unrestricted	(259,980)	1,377,030	1,117,050	103,156
Total Net Assets	<u>\$ 2,841,061</u>	<u>\$ 7,322,248</u>	<u>\$ 10,163,309</u>	<u>\$ 366,789</u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	Business Type Activities-Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
Operating Revenues:				
Charges for services	\$ 563,855	\$ 608,760	\$ 1,172,615	\$ 61,535
Penalty Charges	6,378	5,577	11,955	-
Equipment rentals	36,300	-	36,300	61,688
Other	4,856	15,618	20,474	-
Total Operating Revenues	<u>611,389</u>	<u>629,955</u>	<u>1,241,344</u>	<u>123,223</u>
Operating Expenses:				
Personnel services	39,693	70,810	110,503	131,451
Water/Sewer Authority charges	510,500	451,697	962,197	-
Supplies	16,562	1,440	18,002	12,500
Other services and charges	3,208	22,182	25,390	7,184
Insurance	-	15,160	15,160	8,754
Repairs and maintenance	824	14,245	15,069	15,553
Equipment rental	7,045	14,768	21,813	-
Depreciation	211,506	199,507	411,013	31,319
Other	44	357	401	1,081
Total Operating Expenses	<u>789,382</u>	<u>790,166</u>	<u>1,579,548</u>	<u>207,842</u>
Operating Loss	<u>(177,993)</u>	<u>(160,211)</u>	<u>(338,204)</u>	<u>(84,619)</u>
Non-Operating Revenues (Expenses):				
Property taxes	323,376	-	323,376	-
Contribution of capital assets	56,255	-	56,255	-
Interest on Bonds	(121,229)	-	(121,229)	-
Interest earned	541	13,771	14,312	2,663
Total Non-Operating Revenues (Expenses)	<u>258,943</u>	<u>13,771</u>	<u>272,714</u>	<u>2,663</u>
Net Income (Loss) before transfers	<u>80,950</u>	<u>(146,440)</u>	<u>(65,490)</u>	<u>(81,956)</u>
Transfers In:				
Transfer from General Fund	40,643	-	40,643	30,000
Transfer from Capital Projects Fund	16,045	16,045	32,090	-
	<u>56,688</u>	<u>16,045</u>	<u>72,733</u>	<u>30,000</u>
Net Income (Loss)	<u>137,638</u>	<u>(130,395)</u>	<u>7,243</u>	<u>(51,956)</u>
Net assets at beginning of year	(1,737,511)	(157,503)	(1,895,014)	256,781
Prior period adjustment	<u>4,440,934</u>	<u>7,610,146</u>	<u>12,051,080</u>	<u>161,964</u>
Net assets at beginning of year as restated	<u>2,703,423</u>	<u>7,452,643</u>	<u>10,156,066</u>	<u>418,745</u>
Net Assets end of year	<u>\$ 2,841,061</u>	<u>\$ 7,322,248</u>	<u>\$ 10,163,309</u>	<u>\$ 366,789</u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	Business Type Activities-Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
Cash Flows From Operating Activities:				
Receipts from customers	\$ 590,594	\$ 578,427	\$ 1,169,021	\$ -
Payment to suppliers	(535,495)	(516,523)	(1,052,018)	(47,348)
Payment to employees	(31,400)	(59,959)	(91,359)	(61,327)
Payments for employee benefits	(8,231)	(10,509)	(18,740)	(67,972)
Payment for other funds for services	53,786	(5,065)	48,721	123,387
Net cash provided (used) by operating activities	69,254	(13,629)	55,625	(53,260)
Cash Flows From Noncapital Financing Activities:				
Advance from (to) other funds	23,203	55,483	78,686	30,000
Operating subsidies and other fund activities	114,632	12,913	127,545	-
Net cash provided by noncapital financing activities	137,835	68,396	206,231	30,000
Cash Flows From Capital and Related Financing Activities:				
Bond payments -				
Principal	(240,974)	-	(240,974)	-
Interest and fiscal charges	(122,735)	-	(122,735)	-
Acquisition/construction/disposal of capital assets	(190,768)	(16,045)	(206,813)	(63,547)
Property Taxes	323,376	-	323,376	-
Net cash used by capital and related financing activities	(231,101)	(16,045)	(247,146)	(63,547)
Cash Flows From Investing Activities:				
Interest earned	541	13,583	14,124	2,663
Sale (purchase) of investments	58,020	(35,860)	22,160	86,500
Net cash provided (used) by investing activities	58,561	(22,277)	36,284	89,163
Net Increase in Cash and Cash Equivalents for the year	34,549	16,445	50,994	2,356
Cash and Cash Equivalents at Beginning of Year	4,438	3,536	7,974	2,593
Cash and Cash Equivalents at End of Year	\$ 38,987	\$ 19,981	\$ 58,968	\$ 4,949
Reconciliation of Net Loss to Net Cash Provided (Used) by Operating Activities:				
Operating loss for the year	\$(177,993)	\$(160,211)	\$(338,204)	\$(84,619)
Adjustments to reconcile operating loss to net cash used by operating activities -				
Depreciation	211,506	199,507	411,013	31,319
Change in assets and liabilities:				
Receivables	(15,373)	13,865	(1,508)	165
Prepaid expenses	(781)	(13,446)	(14,227)	518
Due from other funds	59,146	8,386	67,532	-
Due from component unit	-	(62,232)	(62,232)	-
Accounts payable/accrued liabilities	(3,963)	325	(3,638)	(1,196)
Sick time	448	177	625	553
Deferred Revenue	(3,736)	-	(3,736)	-
Net Cash Provided (Used) By Operating Activities	\$ 69,254	\$(13,629)	\$ 55,625	\$(53,260)

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2004

	<u>Agency Fund</u>
ASSETS:	
Cash and cash equivalents	\$ 1,045,173
Accounts receivable	<u>11,184</u>
Total Assets	<u><u>\$ 1,056,357</u></u>
 LIABILITIES:	
Due to other governmental units	<u><u>\$ 1,056,357</u></u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF EAST CHINA**St. Clair County, Michigan****COMBINING STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
DECEMBER 31, 2004**

	<u>Sewer/Water Authority</u>	<u>Brownfield Development Authority</u>	<u>Totals</u>
ASSETS			
Cash	\$ 9,144	\$ 28,267	\$ 37,411
Investments	636,146	-	636,146
Interest receivable	389	-	389
Due from primary government	64,485	-	64,485
Due from Charter Township of China	14,908	-	14,908
Prepaid expenditures	<u>159</u>	<u>-</u>	<u>159</u>
 Total Assets	 <u>725,231</u>	 <u>28,267</u>	 <u>753,498</u>
 LIABILITIES			
Accounts payable	21,204	-	21,204
Accrued salaries and wages	6,913	-	6,913
Accrued payroll taxes	529	-	529
Accrued vacation	16,187	-	16,187
Deposits payable	56,000	-	56,000
Non-current liabilities			
Due in more than one year			
Advance from primary government	90,318	-	90,318
Accrued sick leave	<u>61,910</u>	<u>-</u>	<u>61,910</u>
 Total Liabilities	 <u>253,061</u>	 <u>-</u>	 <u>253,061</u>
 Net Assets:			
Unrestricted	<u>\$ 472,170</u>	<u>\$ 28,267</u>	<u>\$ 500,437</u>

CHARTER TOWNSHIP OF EAST CHINA**St. Clair County, Michigan****COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Water/Sewer Authority				
Business Type Activities				
Water and Sewer	\$ 1,003,239	\$ 1,003,239	\$ -	\$ 93,000
Brownsfield Development Authority				
Governmental Activities				
Public Works	5,374	-	-	-

General Revenues:

Property Taxes

Unrestricted investment income

Change in net assets

Net assets at beginning of year

Net assets at end of year

The accompanying notes are an integral part of these financial statements.

<u>Sewer/Water Authority</u>	<u>Brownfield Development Authority</u>	<u>Total</u>
<u>\$ 93,000</u>		\$ 93,000
-	<u>\$(5,374)</u>	(5,374)
-	26,752	26,752
<u>10,067</u>	<u>262</u>	<u>10,329</u>
<u>10,067</u>	<u>27,014</u>	<u>37,081</u>
103,067	21,640	124,707
<u>369,103</u>	<u>6,627</u>	<u>375,730</u>
<u><u>\$ 472,170</u></u>	<u><u>\$ 28,267</u></u>	<u><u>\$ 500,437</u></u>

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity -

The Charter Township of East China, Michigan, a Municipal Corporation, was organized as a Township on February 12, 1859, under provisions of the constitution and general law of the State of Michigan and became a Charter Law Township on November 6, 1979, under Public Act 359, the Charter Township Act. The Township is one of twenty-three Townships in St. Clair County and covers an area of approximately 5.7 square miles. The Township operates under an elected Township Board which consists of a Supervisor, Clerk, Treasurer, and four (4) Trustees, and provides services to its more than 3,600 residents in many areas including law enforcement, fire protection, water, sewer, roads, parks and natural resources, and planning and economic development.

These financial statements present the Township and its component units, entities for which the Township is considered to be financially accountable. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the Township.

DISCRETELY PRESENTED COMPONENT UNITS -

The St. Clair River Sewer and Water Authority - The Authority was established by the Charter Townships of China and East China for the purpose of operating and maintaining a sanitary sewage treatment plant and water filtration plant in accordance with Act 233 Public Acts of Michigan, 1955, as amended. The sewer facility commenced operations in July 1983 and the water facility began operations in July 2001.

The St. Clair River Sewer and Water Authority operates under a five (5) member Board of Commissioners appointed by the Charter Townships Boards, which establish policy and review operations.

The St. Clair River Sewer and Water Authority has contracted with the Charter Township of East China to perform the administration, operations and maintenance of the facility. The Authority charges the Charter Townships for sewer services and water services, and it is the Townships' responsibility to charge the individual users. The Sewer plant and systems are recorded in the respective Charter Townships' Sewer Funds based on ownership. The Charter Township of East China owns 71.52% of the sewer plant. The Water plant and systems are recorded in the respective Charter Townships' Water Funds based on ownership. The Charter Township of East China owns 67.88% of the Water plant.

Complete financial statements of the St. Clair River Sewer and Water Authority may be obtained from the Charter Township of East China at 5111 River Road, East China, MI 48054.

Brownfield Redevelopment Authority - The Authority was created to promote the revitalization of environmentally distressed areas. The Authority is under the supervision of the Board, with the eight to ten member Board appointed by the Supervisor and confirmed by the Township Board.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

B. Government-wide and fund financial statements -

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the non-fiduciary activities of the primary government and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type-activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods services, or privileges provided by a given function or segment. Taxes and other items not included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting and financial statement presentation -

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are intended to finance (the December 2003 levy in 2004). Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgment are recorded only when payment is due.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

State shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Property taxes, which are levied and collected in December of each year, are budgeted and treated as revenue in the subsequent year. All other revenue items are considered to be measurable and available only when cash is received by the Township.

The Township reports the following major governmental funds:

General Fund – is the Township’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Township Improvement Fund – is a special revenue fund used to account for non-tax revenue set aside for statutory public improvements.

Capital Projects Fund – is used to account for financial resources to be used for the acquisition or construction of major capital projects (other than those financed by Proprietary Funds).

The Township reports the following major proprietary fund:

Water Fund – is used to account for the treatment and distribution of water to residential and commercial users.

Sewer Fund – is used to account for sanitary sewer services provided to the residential and commercial users.

Additionally, the Township reports the following fund types:

Special Revenue Fund – is used to account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulation provisions or administrative actions.

Debt Service Fund – is used to account for accumulation of resources for and the payment of, general long-term debt principal, interest and related costs.

Agency Fund – is used to account for assets held by the Township as an agent for other governments and other funds.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses for nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principle on-going operations. The principle operating revenues of the Enterprise Funds is charged to customers for sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, the unrestricted resources, as they are needed.

D. Assets, Liabilities and Net Assets or Equity –

Deposits and Investments –

The Township's cash and cash equivalents are considered to be cash on hand and demand deposits. The investment trusts have the general characteristics of demand deposit accounts in that the Township may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty, and are reported as cash and cash equivalents.

Investments are stated at fair value, which is determined as follows: (a) short-term investments are reported at cost, which approximates fair value; (b) securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates; (c) investments that do not have established market values are reported at estimated fair value; and (d) cash deposits are reported at carrying amount which reasonable approximates fair value.

State statutes authorize the Township to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments (except those with a fluctuating per share value).

Receivables and Payables –

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectible.

Inventories and Prepaid Items –

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to further accounting periods and are recorded as prepaid items in the statement of net assets.

Property Tax Calendar –

The Township's property tax is levied each December 1 on the taxable value of property located in the Township as if the proceeding December 31. Property taxes are recognized as revenues in the year they were intended to finance (the 2003 levy is recognized in 2004).

The Township also collects taxes for various other municipalities and school districts. The collection and remittance of these taxes are accounted for in the Tax Collection Fund.

Capital Assets –

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. shared roads and bridge improvements, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of a year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

As permitted by GASB Statement No. 34, the Township has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to January 1, 2004.

Property, plant, and equipment of the primary government, is depreciated using the straight line method over the following estimated useful lives:

	<u>Primary Government</u>
Land Improvements	10-25
Buildings and improvements	10-60
Utility systems	60
Machinery and equipment	3-25

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Compensated Absences –

In accordance with contracts negotiated with the various employee groups of the Township, individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave under formulas and conditions specified in the contracts.

Long-Term Obligations –

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financial uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity –

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Estimates –

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Information –

The Township Supervisor prepares and submits the proposed operating budgets for the year commencing January 1. The budgets include proposed expenditures and resources to finance them.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - (cont'd):

Prior to December 31, the proposed budget is presented to the Township Board. The Board holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through the passage of a Township Resolution. After the budget is adopted, all amendments must be approved by the Township Board.

The Township's approved budgets were adopted at the function level for the General Fund and Special Revenue Funds. The function level is the legal level requiring approval by the Board for amendments; however, for control purposes, all the budgets are maintained at the account level.

The Township does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year end.

Michigan Public Act 621 of 1978, Section 18, as amended, provides that a local government unit shall not incur expenditures in excess of the amount appropriated.

During the fiscal year ended December 31, 2004, the Township incurred expenditures in the General and Special Revenue Fund, which were in excess of the amount appropriated as follows:

<u>Function/Activity</u>	<u>Total Appropriations</u>	<u>Amount Expended</u>	<u>Budget Variance</u>
General Fund –			
Public Safety	\$ 252,595	\$ 253,847	\$ 1,252
Public Works	209,160	211,179	2,019
Recreation and Culture	113,130	121,579	8,449
Building Inspections Fund –			
Public Safety	68,840	80,828	11,988

Deficit Fund Balance –

As of December 31, 2004 the Water Fund (Business-Type Activity-Enterprise Fund) of the Township had a deficit unrestricted net assets of \$259,980. A deficit elimination plan has been filed with the Department of Treasury.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 3 - DEPOSITS AND INVESTMENTS:

As of December 31, 2004, the carrying amount of the deposits and investments is as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Component Unit</u>	<u>Total</u>
Deposits –				
Cash on hand –				
Petty Cash	\$ 1,526	\$ -	\$ -	\$ 1,526
Deposits with Financial Institutions	<u>453,018</u>	<u>1,045,173</u>	<u>37,411</u>	<u>1,535,602</u>
Total Deposits	<u>454,544</u>	<u>1,045,173</u>	<u>37,411</u>	<u>1,537,128</u>
Investments –				
Federal Home Loan	300,000	-	100,000	400,000
Investment Trust Funds	<u>2,228,527</u>	<u>-</u>	<u>536,146</u>	<u>2,764,673</u>
Total Investments	<u>2,528,527</u>	<u>-</u>	<u>636,146</u>	<u>3,164,673</u>
	<u>\$ 2,983,071</u>	<u>\$ 1,045,173</u>	<u>\$ 673,557</u>	<u>\$ 4,701,801</u>
Reconciliation To Combined Balance Sheet				
Reported as Cash and Cash Equivalents –				
Petty Cash	\$ 1,526	\$ -	\$ -	\$ 1,526
Deposits with Financial Institutions	<u>312,016</u>	<u>1,045,173</u>	<u>37,411</u>	<u>1,394,600</u>
Total Cash and Cash				
Equivalents Reported on				
Combined Balance Sheet	<u>313,542</u>	<u>1,045,173</u>	<u>37,411</u>	<u>1,396,126</u>
Reported as Investments –				
Federal Home Loan	300,000	-	100,000	400,000
Investment Trust Funds	2,228,527	-	536,146	2,764,673
Deposits with Financial Institutions	<u>141,002</u>	<u>-</u>	<u>-</u>	<u>141,002</u>
	<u>2,669,529</u>	<u>-</u>	<u>636,146</u>	<u>3,305,675</u>
Grant Total Combined Balance Sheet	<u>\$ 2,983,071</u>	<u>\$ 1,045,173</u>	<u>\$ 673,557</u>	<u>\$ 4,701,801</u>

Deposits –

The Township's investment policy and Act 217 PA 1982, as amended, authorizes the Township to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured institution for savings and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

As of December 31, 2004, the bank balance of the Township's deposits were \$1,544,885, of which \$243,372 was FDIC insured with the balance \$1,301,513 uninsured and uncollateralized.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 3 - DEPOSITS AND INVESTMENTS - (cont'd):

Investments –

Act 20 PA 1994 as amended by Act 1997 PA 1999 authorizes the Township to invest surplus funds in bonds, securities and other direct obligations or repurchase agreements consisting of these financial instruments of the United States government or an agency or instrumentality of the United States; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications by not less than two standard ratings services, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of the political subdivisions that at the time of purchase are rated as investment grades by not less than one standard rating service, mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 3657, 129.111 to 129.118; investment pools organized under the local government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.

The certificates of deposit and investment trust funds have been reported in the financial statements as investments even though several certificates of deposit do not have a maturity of more than 90 days from date of purchase and the investment trust funds have characteristics of demand deposit accounts in that the Township may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty. The reason for reporting as investments is that it is the intent of the Township to not reinvest the certificates of deposit or made regular withdrawals since the funds are part of the Charter Township's pooled investment program.

Investments may be classified into three categories to give an indication of the level of risk assumed by the Township. Category 1 includes investments that are insured or registered or for which the securities are held by the Township or its agent in the Township's name. Category 2 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the Township's name. Category 3 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent, but not in the Township's name.

	Categories			Carrying Amount	Market Value
	1	2	3		
Federal Home Loan	\$ -	\$ -	\$400,000	\$ 400,000	\$ 400,000
Unclassified Investments - Investment Trusts				<u>2,764,673</u>	<u>2,764,673</u>
				<u>\$ 3,164,673</u>	<u>\$ 3,164,673</u>

As of December 31, 2004, the Township has \$2,764,673 invested in Investment Trust Funds, which are managed by a bank's trust department as investments of the primary government. The trust invests primarily in short-term maturity U.S. Government backed or guaranteed securities, which are held by the trust in its name. These funds have not been considered to be susceptible to investment risk categories. The investment trusts have been reported in the financial statements as a cash equivalent because they have the general characteristics of demand deposit accounts in that the Township may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 4 - TAXES:

The Township property taxes are levied each December on the assessed valuation of the property located in the Township as of the preceding December 31. On December 1, the property tax attachment is an enforceable lien on property and is payable by the last day of the following February.

Assessed values are established annually by the Township and are equalized by the State at an estimated percentage of the current market value. Real and personal property in the Township for the 2004 levy has a State Equalized Value (SEV) of \$502,866,438 and a taxable value of \$470,073,736.

The millage rates levied by the Township were 2.2969 for General Operating, .2497 for the Debt Service, .4534 for Capital Projects Fund, and .6800 for Water Fund (Debt Service).

The County of St. Clair has established a Tax Collection Revolving Fund whereby all local units of government are paid for the delinquent real property taxes each year.

NOTE 5 - RECEIVABLES:

Receivables in the governmental and business-type activities are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Taxes	\$ 1,193,029	\$ 270,416
Accounts and Interest	3,045	226,241
Intergovernmental	<u>111,519</u>	<u>-</u>
	<u>\$ 1,307,593</u>	<u>\$ 496,657</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds, as well as business funds, also defer revenue recognition in connection with resources that have been received, but not earned or are received in advance of the period they are intended to finance. At the end of the current fiscal year the component of deferred revenue and unearned revenue reported in the governmental funds was as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Governmental-Type Activities		
General Fund –		
Property Taxes	\$ -	\$ 1,092,822
Capital Projects Fund –		
Property Taxes	-	<u>213,130</u>
1989 Debt Service Fund –		
Property Taxes	-	<u>117,377</u>
Business-Type Activities		
Water Fund –		
Property Taxes	-	<u>319,642</u>
	<u>\$ -</u>	<u>\$ 1,742,971</u>

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 6 - INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS:

The composition of interfund balances as of December 31, 2004:

Due To/From Primary Government and Component Unit –

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water Authority	Water Fund	\$ 23,203
Sewer Authority	Sewer Fund	<u>41,282</u>
		<u>\$ 64,485</u>

Transfers From/To Other Funds –

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Cemetery Perpetual Care	General Fund	\$ 992
Water Fund	General Fund	40,643
Water Fund	Capital Projects Fund	16,045
Sewer Fund	Capital Projects Fund	16,045
Internal Service Fund	General Fund	<u>30,000</u>
		<u>\$ 103,725</u>

NOTE 7 - INTERFUND ADVANCES:

Interfund advances described as Advances To/From Other Fund, reflect long-term amounts due or owed to a particular fund by another fund of the township. These amounts include current portion of long-term loans. A summary of these balances at December 31, 2004 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Advance To/From Primary Government		
Sewer Fund	Water Fund	<u>\$ 350,000</u>
Advance To/From Primary Government and Component Unit		
Sewer Fund	Sewer Authority	<u>\$ 90,318</u>

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 8 - CAPITAL ASSETS:

Primary Government

Capital asset activity of the primary government for the year ended December 31, 2004 was as follows:

	<u>Jan. 1, 2004</u> <u>Balance</u>	<u>Additions</u>	<u>Deletions/</u> <u>Adjustments</u>	<u>Dec. 31, 2004</u> <u>Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 124,442	\$ -	\$ -	\$ 124,442
Capital assets, being depreciated:				
Land improvements	2,447,313	42,825	-	2,490,138
Buildings and improvements	947,411	63,547	-	1,010,958
Machinery and equipment	562,357	5,599	19,086	548,870
Total capital assets being depreciated	<u>3,957,081</u>	<u>111,971</u>	<u>19,086</u>	<u>4,049,966</u>
Less accumulated depreciation for:				
Land improvements	683,094	121,070	-	804,164
Buildings and improvements	187,084	18,285	-	205,369
Machinery and equipment	331,577	39,081	19,086	351,572
Total accumulated depreciation	<u>1,201,755</u>	<u>178,436</u>	<u>19,086</u>	<u>1,361,105</u>
Total capital assets being depreciated, net	<u>2,755,326</u>	<u>(66,465)</u>	<u>-</u>	<u>2,688,861</u>
Governmental activities capital assets, net	<u>\$2,879,768</u>	<u>\$ (66,465)</u>	<u>\$ -</u>	<u>\$ 2,813,303</u>
Business Type Activities:				
Capital assets, not being depreciated:				
Land	\$ 72,530	\$ -	\$ -	\$ 72,530
Capital assets, being depreciated:				
Buildings and improvements	7,992,885	-	-	7,992,885
Utility systems	11,809,671	207,227	-	12,016,898
Equipment	684,323	-	-	684,323
Total capital assets being depreciated	20,486,879	207,227	-	20,694,106
Less accumulated depreciation	<u>(6,500,538)</u>	<u>(411,013)</u>	<u>-</u>	<u>(6,911,551)</u>
Total capital assets being depreciated, net	<u>13,986,341</u>	<u>(203,786)</u>	<u>-</u>	<u>13,782,555</u>
Business activities capital assets, net	<u>\$ 14,058,871</u>	<u>\$ (203,786)</u>	<u>\$ -</u>	<u>\$ 13,855,085</u>

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 8 - CAPITAL ASSETS - (cont'd):

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General Government	\$ 22,595
Recreation and Culture	<u>124,521</u>
 Total depreciation expense-governmental activities	 <u>\$ 147,116</u>
 Business-type activities:	
Water and Sewer Operation	<u>\$ 411,013</u>

In addition, there was a depreciation of \$31,320 in the Internal Service Fund (Department of Public Works).

NOTE 9 - LONG-TERM DEBT:

The following is a summary of changes in long-term liabilities (including current portion) of the Primary Government for the year ended December 31, 2004:

	Balance <u>January 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>December 31, 2004</u>	Due Within <u>One Year</u>
<u>Governmental Activities:</u>					
Sewage Disposal System –					
Contract Payable –					
No. III, Series III –					
1989 Refunding Bond	\$ 228,864	\$ -	\$ 114,432	\$ 114,432	\$ 114,432
Accrued sick leave	<u>57,973</u>	<u>-</u>	<u>564</u>	<u>57,409</u>	<u>-</u>
	<u>286,837</u>	<u>-</u>	<u>114,996</u>	<u>171,841</u>	<u>114,432</u>
 <u>Business-type Activities:</u>					
Water Fund –					
Water Supply System –					
Contract Payable –					
1999 Department of					
Environmental Quality Bonds	5,029,908	-	240,974	4,788,934	247,762
Accrued sick leave	<u>4,949</u>	<u>625</u>	<u>-</u>	<u>5,574</u>	<u>-</u>
	<u>5,034,857</u>	<u>625</u>	<u>240,974</u>	<u>4,794,508</u>	<u>247,762</u>
 Total Primary Government	 <u>\$ 5,321,694</u>	 <u>\$ 625</u>	 <u>\$ 355,970</u>	 <u>\$ 4,966,349</u>	 <u>\$ 362,194</u>

Significant details regarding outstanding long-term liabilities (including current portions) are presented as follows:

Sewage Disposal System - Contract Payable – Refunding Bonds:

In 1981 the Charter Township entered into an agreement with the County of St. Clair providing for the County to acquire and construct a sewage disposal system for the Township. The County completed construction and leases the system to the Township who is operating, maintaining and managing the system.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 9 - LONG-TERM DEBT - (cont'd):

On July 1, 1989, St. Clair County issued \$2,365,000 in Sewage Disposal System Limited Tax General Obligation Bonds to advance refund the 1985 Sewage Disposal System Limited General Obligation Refunding Bonds, totaling \$2,150,000. The proceeds of the refunding issue have been placed by St. Clair County in a special escrow account and have been invested in securities of the United States Government and its agencies. The maturities of these investments coincide with the principal and interest payment dates of the extinguished debt and are sufficient to pay all principal and interest when due. Therefore, the amount of debt that is considered extinguished at the end of the year is not reported as a contract liability at year end.

The amount is apportioned between the Charter Townships of East China and China in the ratio of 71.52% and 28.48%, respectively.

In order to pay such amounts to the County for the refunding bonds, the Township is obligated, to the extent necessary, to levy ad valorem taxes without limitations as to the rate or amount on all taxable property located in the Township. The Township currently levies taxes to service the debt. Upon final payment of the respective bond issue, ownership of 71.52% of the system will revert to the Township.

The balance of the contract payable at December 31, 2004, which represents the 71.52% apportioned to the Charter Township of East China, is \$114,432. The annual requirement to pay the debt principal and interest of the Sewage Disposal 1989 Refunding Bonds is as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Interest</u> <u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Due</u>
2005	6.90 %	<u>\$ 114,432</u>	<u>\$ 11,815</u>	<u>\$ 118,380</u>

Water Supply System 1999 Department of Environmental Quality Bonds:

In order to finance the cost of constructing a new Water Filtration Plant, the Charter Township of East China along with the Charter Township of China through the St. Clair County Department of Public Works have participated in the Drinking Water Revolving Fund through which Department of Environmental Quality Bonds have been sold in the amount of \$7,500,000 (Issue A) and \$925,000 (Issue B).

The amount is apportioned between the Charter Township of East China and China in the ratio of 67.88% and 32.12%, respectively.

The Townships are required to make payments to the DPW to meet debt service requirements. It is the intention of the Charter Township of East China to pay the obligation for Issue A to the County from property taxes and Issue B from the general fund. Upon final payment of the respective bond issues ownership of 67.88% of the system will revert to the Township.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 9 - LONG-TERM DEBT - (cont'd):

The balance of the Issue A and Issue B bonds payable at December 31, 2004, which represent the 67.88% apportioned to the Charter Township of East China is \$4,262,864 and \$526,070, respectively. The annual requirements to pay the principal and interest on the Issue A and Issue B Department of Environment Quality Bonds are as follows:

<u>Year Ending December 31,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Due</u>
2005	2.50%	\$ 247,762	\$ 116,626	\$ 364,388
2006	2.50	251,156	110,390	361,546
2007	2.50	257,944	104,026	361,970
2008	2.50	268,126	97,451	365,577
2009	2.50	271,520	90,705	362,225
2010-2014	2.50	1,469,602	346,655	1,816,257
2015-2020	2.50	<u>2,022,824</u>	<u>155,614</u>	<u>2,178,438</u>
		<u>\$ 4,788,934</u>	<u>\$ 1,021,467</u>	<u>\$ 5,810,401</u>

Accrued Vacation and Sick Pay -

In accordance with contracts negotiated with the various employee groups of the Township, individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave under formulas and conditions specified in the contracts. The Governmental Fund portion of \$27,242 and \$30,167, as well as the Enterprise Fund portion of \$5,574, has been recorded in the government-wide financial statements as a long-term liability.

\$ 62,983

In addition, \$61,910 was recorded in the Component Unit St. Clair River Sewer and Water Authority Fund.

NOTE 10 - OPERATION OF SEWAGE DISPOSAL SYSTEM:

In 1981, the Charter Townships of China and East China entered into an agreement with St. Clair County to acquire and construct a sewage disposal system. The County has completed construction of the system and is leasing it to the Townships. The Townships have contracted with the St. Clair River Sewer and Water Authority, a public corporation established by the Townships for the operation, maintenance and administration of the project as permitted by the contract with the County. Upon final payment of the bond issues described in Note 9, ownership in the system will revert to the Townships. The St. Clair River Sewer and Water Authority is reported in the annual financial statements of the Charter Township of East China as a Component Unit. The Authority does not report the Utility Fixed Assets on its Balance Sheet. The Townships report the respective equity portion of the Capital Assets on the Balance Sheet of the respective Sewer Funds.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 11 - EMPLOYEE PENSION PLAN:

Plan Description -

The Charter Township of East China participates in the Municipal Employees Retirement System (MERS), a multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefits provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy -

The plan adopted by the Charter Township Board requires members to contribute 4.7% of the annual compensation. The Township is required to contribute at an actuarially determined rate. The contribution requirements of plan members and the Township are established and may be amended by the Township, depending on the MERS contribution program adopted by the Township.

Annual Pension Costs -

For fiscal 2004, the Charter Township's annual pension cost of \$88,374 for MERS was equal to the Township's required and actual contributions. The required contribution was determined as part of the December 31, 2002, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0% (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation (c) additional projected salary increases ranging from 0.0% to 4.2% per year, depending on age, attributable to seniority/merit and (d) the assumption that benefits will increase 2.5% (annually) after retirement. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the fund earns the expected rate of return (8%) and includes as adjustment to reflect market value.

Three-Year Trend Information

Fiscal Year Ending December 31,	Annual Pension Costs (APC)	Percentage of APC Contribution	Net Pension Obligation
2001	\$ 40,496	100 %	-
2002	51,176	100	-
2003	71,888	100	-

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 11 - EMPLOYEE PENSION PLAN - (cont'd):

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Un-funded (Over-funded) Accrued Liability (UAAL) (b-a)	Funded Ratio AAL (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2001	\$ 3,303,283	\$ 3,801,684	\$ 498,401	87.00 %	\$ 723,873	69.00 %
2002	3,371,145	4,048,542	677,395	83.00	703,178	96.00
2003	3,592,555	4,191,713	599,158	86.00	730,232	82.00

NOTE 12 - RESTRICTED ASSETS:

The restricted assets of \$325,080 in the Water Fund are for capital improvements/debt retirement.

NOTE 13 - PRINCIPAL TAXPAYER AND UTILITY CUSTOMER:

The Detroit Edison Plant, located within the Townships, provides a significant portion of both property tax and utility revenues. Such revenues and the approximate percentage of the total individual revenues for the year ended December 31, 2004 are summarized below:

	Revenues Provided	Approximate Percentage
Property taxes	\$ 1,165,442	67.67 %
Wastewater treatment service	171,231	28.13
Water purchases	65,893	11.69

NOTE 14 - CONTINGENT LIABILITIES:

Primary Government –

One of the Township's major taxpayers, the Detroit Edison Company, is appealing its tax assessments for the 2002, 2003 and 2004 tax assessments. The taxpayer has paid the contested amount. Should the taxpayer prevail, the Township would be required to refund approximately \$2,322,000 plus interest for 2002 and 2003 tax levy. In addition, the Township would be required to refund approximately another \$1,179,000 for 2004 tax levy, which is recorded as revenue by the Township in 2005. The Township has designated a portion of fund balance for the contested amounts (See Note 15). The Township intends to vigorously defend the original assessments and believes they will prevail. Due to the matter of the appeal, it is impossible to estimate any potential liability, if any.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 15 - RESERVED/DESIGNATED FUND BALANCE/RETAINED EARNINGS:

Reserved Fund Balance/Retained Earnings –

Fund Balance/Retained Earnings has been reserved/designated in the various fund types to indicate that a portion of the Fund Balance/Retained Earnings is not available but reserved for specific purposes:

<u>Fund Type/Fund</u>	<u>Description</u>	<u>Amount</u>
Reserved –		
Fund Balance –		
General	Prepaid Expenditures	\$ 79,948
Capital Projects	Capital Projects	411,292
Debt Service	Debt Retirement	4,056
Cemetery Perpetual Care	Perpetual Care	<u>44,372</u>
		<u>\$ 539,668</u>
Retained Earnings –		
Water Fund	Debt Retirement	<u>\$ 4,601</u>
Designated –		
Fund Balance –		
General	Tax Appeal	\$ 58,225
Township Improvement	Tax Appeal	30,000
Capital Projects	Tax Appeal	<u>170,155</u>
		<u>\$ 258,380</u>

NOTE 16 - RISK MANAGEMENT:

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, Injuries to employees, medical benefits provided to employees, etc. The Township has purchased insurance coverage for each of these types of losses; however, the Township would be responsible should the limit of coverage's be exceeded.

NOTE 17 - PRIOR PERIOD ADJUSTMENT:

Governmental Funds:

A prior period adjustment of \$56,073 was made in the General Fund to recognize nonexchange state shared revenues collected within 60 days, therefore increasing fund balance as reported at December 31, 2003 from \$246,000 to \$290,476.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 17 - PRIOR PERIOD ADJUSTMENT - (cont'd):

Proprietary Funds:

A prior period adjustment of \$4,439,246 was recorded to the Water Fund and \$7,597,234 to the Sewer Fund retained earnings at December 31, 2003, to discontinue the reporting of contributed capital as separate components of fund equity as required by GASB No. 33. In addition, a prior period adjustment of \$1,688 was recorded to the Water Fund and \$12,912 to the Sewer Fund retained earnings at December 31, 2003, on the Statement of Revenues, Expenses and Changes in Net Assets to record prepaid expenses. Therefore, net assets as reported at December 31, 2003, increased from \$(1,737,511) to \$2,703,423 in the Water Fund and from \$(157,503) to \$7,452,643 in the Sewer Fund.

A prior period adjustment of \$151,635 was made in the Internal Service Fund (which is included in the governmental activities) to discontinue the reporting of contributed capital as a separate component of fund equity as required by GASB No. 33. In addition, a prior period adjustment of \$10,329 was recorded to retained earnings at December 31, 2003 to record prepaid expenses. Therefore, net assets as reported at December 31, 2003, increased from \$256,781 to \$418,745.

NOTE 18 - RESTATEMENTS:

As of and for the year ended December 31, 2004, the Township implemented the following Governmental Accounting Standards Board pronouncements:

Statements

- No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*
- No. 36 – *Recipient Reporting for Certain Shared Nonexchange Revenues – An Amendment of GASB No. 33*
- No. 37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*
- No. 38 – *Certain Financial Statement Note Disclosures*

Interpretation

- No. 6 – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

The above pronouncements are all related to the new financial reporting requirements for all state and local governments.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE 18 - RESTATEMENTS - (cont'd):

The more significant of the changes required by the new standards include:

- Management's discussion and analysis;
- Basic financial statements that include:
 - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
 - Fund financial statements, consisting of a series of statements that focus on a government's major governmental funds and enterprise funds;
 - Schedules to reconcile the fund financial statements to the government-wide financial statements'
- Required supplementary information, including certain budgetary schedules.

As a result of implementing these pronouncements for the fiscal year ended December 31, 2004, the following restatements were made to net assets at January 1, 2004:

Government-wide financial statements. Beginning net assets for governmental activities were determined as follows:

Fund balances of general, special revenue, debt service and capital projects funds as of January 1, 2004	\$ 1,396,177
Prior period adjustment (See note 17)	<u>56,073</u>
	1,452,250
 Add: capital assets	 3,577,462
Add: governmental internal service fund	418,745
Less: accumulated depreciation on capital assets	(929,100)
Less: bonds payable	(228,864)
Less: accrued interest on bonds payable	(2,622)
Less: accrued sick leave payable	<u>(28,359)</u>
 Net Assets at January 1, 2004	 <u><u>\$ 4,259,512</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

CHARTER TOWNSHIP OF EAST CHINA

St. Clair County, Michigan

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Taxes	\$ 956,525	\$ 956,575	\$ 960,092	\$ 3,517
Licenses and permits	19,700	17,700	18,871	1,171
Intergovernmental				
State	274,710	257,710	256,594	(1,116)
Local	14,000	12,700	-	(12,700)
Charges for services	31,895	31,895	36,954	5,059
Interest and rent	22,000	22,000	21,561	(439)
Other revenue	2,100	2,100	8,640	6,540
Total revenues	<u>1,320,930</u>	<u>1,300,680</u>	<u>1,302,712</u>	<u>2,032</u>
Expenditures:				
Current -				
General government	573,615	580,515	521,385	59,130
Public safety	252,595	252,595	253,847	(1,252)
Public works	210,060	209,160	211,179	(2,019)
Health and welfare	1,100	1,100	1,100	-
Recreation and culture	153,930	113,130	121,579	(8,449)
Other	36,865	35,815	28,887	6,928
Capital outlay	61,000	40,500	18,699	21,801
	<u>1,289,165</u>	<u>1,232,815</u>	<u>1,156,676</u>	<u>76,139</u>
Excess of revenues over expenditures	<u>31,765</u>	<u>67,865</u>	<u>146,036</u>	<u>78,171</u>
Other Financing Sources (Uses):				
Transfers in	800	800	992	192
Transfers out	(86,770)	(128,870)	(70,643)	58,227
	<u>(85,970)</u>	<u>(128,070)</u>	<u>(69,651)</u>	<u>58,419</u>
Excess of revenues over (under) expenditures and other uses	<u>(54,205)</u>	<u>(60,205)</u>	<u>76,385</u>	<u>136,590</u>
Fund Balance at beginning of year	246,000	246,000	246,000	-
Prior period adjustment	<u>-</u>	<u>-</u>	<u>56,073</u>	<u>56,073</u>
Fund Balance at beginning of year as restated	<u>246,000</u>	<u>246,000</u>	<u>302,073</u>	<u>56,073</u>
Fund Balance at end of year	<u>\$ 191,795</u>	<u>\$ 185,795</u>	<u>\$ 378,458</u>	<u>\$ 192,663</u>

CHARTER TOWNSHIP OF EAST CHINA**St. Clair County, Michigan**

**TOWNSHIP IMPROVEMENT FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Interest on investments	\$ 10,000	\$ 10,000	\$ 13,780	\$ 3,780
Expenditures:				
Capital Outlay -	<u>60,000</u>	<u>30,000</u>	<u>-</u>	<u>30,000</u>
Excess of revenues over (under) expenditures	(50,000)	(20,000)	13,780	33,780
Fund Balance at beginning of year	<u>769,867</u>	<u>769,867</u>	<u>769,867</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 719,867</u></u>	<u><u>\$ 749,867</u></u>	<u><u>\$ 783,647</u></u>	<u><u>\$ 33,780</u></u>

SUPPLEMENTARY FINANCIAL INFORMATION

CHARTER TOWNSHIP OF EAST CHINA

St. Clair County, Michigan

COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS DECEMBER 31, 2004

	Special Revenue Fund	Debt Service Fund 1989	Permanent Fund	
	Building Inspections	Refunding Debt Service	Cemetery Perpetual	Total
ASSETS				
Cash and cash equivalents	\$ 7,390	\$ 18,640	\$ 2,372	\$ 28,402
Investments	68,729	3,494	42,000	114,223
Receivables -				
Taxes	-	99,299	-	99,299
Other	727	-	-	727
Total Assets	<u>\$ 76,846</u>	<u>\$ 121,433</u>	<u>\$ 44,372</u>	<u>\$ 242,651</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ 75	\$ -	\$ -	\$ 75
Accrued liabilities	2,092	-	-	2,092
Due to employees	25,366	-	-	25,366
Due to individuals	20,350	-	-	20,350
Deferred revenue	-	117,377	-	117,377
Total Liabilities	<u>47,883</u>	<u>117,377</u>	<u>-</u>	<u>165,260</u>
Fund Balance:				
Reserved -				
Debt Services	-	4,056	-	4,056
Perpetual Care	-	-	44,372	44,372
Unreserved -				
Undesignated	28,963	-	-	28,963
Total Fund Balance	<u>28,963</u>	<u>4,056</u>	<u>44,372</u>	<u>77,391</u>
Total Liabilities and Fund Balance	<u>\$ 76,846</u>	<u>\$ 121,433</u>	<u>\$ 44,372</u>	<u>\$ 242,651</u>

CHARTER TOWNSHIP OF EAST CHINA

St. Clair County, Michigan

NONMAJOR GOVERNMENTAL FUNDS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Special Revenue Fund	Debt Service Fund	Permanent Fund	
	Building Inspections	1989 Refunding Debt	Cemetery Perpetual	Total
Revenues:				
Property taxes	\$ -	\$ 125,781	\$ -	\$ 125,781
Permits	91,662	-	-	91,662
Interest	1,069	246	1,002	2,317
Other	1,673	-	825	2,498
Total Revenues	<u>94,404</u>	<u>126,027</u>	<u>1,827</u>	<u>222,258</u>
Expenditures:				
Public safety -				
Salaries and fringes	75,750	-	-	75,750
Contracted services	5,078	-	-	5,078
Debt Service -				
Principal	-	114,432	-	114,432
Interest	-	12,460	-	12,460
Total Expenditures	<u>80,828</u>	<u>126,892</u>	<u>-</u>	<u>207,720</u>
Excess of revenues over (under) expenditures	13,576	(865)	1,827	14,538
Other Financing Uses:				
Transfers Out	<u>-</u>	<u>-</u>	<u>(992)</u>	<u>(992)</u>
Excess of revenues over (under) expenditures and other uses	13,576	(865)	835	13,546
Fund Balances at beginning of year	<u>15,387</u>	<u>4,921</u>	<u>43,537</u>	<u>63,845</u>
Fund Balances at end of year	<u>\$ 28,963</u>	<u>4,056</u>	<u>44,372</u>	<u>\$ 77,391</u>

CHARTER TOWNSHIP OF EAST CHINA**St. Clair County, Michigan**

**BUILDING INSPECTION FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Permits	\$ 69,000	\$ 69,000	\$ 91,662	\$ 22,662
Interest	600	600	1,069	469
Other	30	30	1,673	1,643
	<u>69,630</u>	<u>69,630</u>	<u>94,404</u>	<u>24,774</u>
Expenditures:				
Salaries and fringe benefits	61,740	61,740	75,750	(14,010)
Contracted service	7,100	7,100	5,078	2,022
	<u>68,840</u>	<u>68,840</u>	<u>80,828</u>	<u>(11,988)</u>
Excess of revenues over expenditures	790	790	13,576	12,786
Fund Balance at beginning of year	<u>15,387</u>	<u>15,387</u>	<u>15,387</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 16,177</u>	<u>\$ 16,177</u>	<u>\$ 28,963</u>	<u>\$ 12,786</u>

CHARTER TOWNSHIP OF EAST CHINA**St. Clair County, Michigan****CURRENT TAX FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Balance January 1, 2004	Additions	Deductions	Balance December 31, 2004
Assets:				
Cash	\$ 354,942	\$ 18,359,571	\$ 17,669,340	\$ 1,045,173
Accounts receivable	7,716	24,836	21,368	11,184
	<u>\$ 362,658</u>	<u>\$ 18,384,407</u>	<u>\$ 17,690,708</u>	<u>\$ 1,056,357</u>
Liabilities:				
Due to other funds	\$ -	\$ 1,812,593	\$ 1,812,593	\$ -
Due to other governmental units -				
County	225,587	9,504,409	8,997,542	732,454
School District	137,071	8,103,982	7,917,150	323,903
	<u>\$ 362,658</u>	<u>\$ 19,420,984</u>	<u>\$ 18,727,285</u>	<u>\$ 1,056,357</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Supervisor and Members of
The Township Board
Charter Township of East China
St. Clair County, Michigan

We have audited the financial statements of the Charter Township of East China, Michigan, as of and for the year ended December 31, 2004, and have issued our report thereon, dated June 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Charter Township of East China, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Charter Township of East China, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters, which are required to be reported under *Government Auditing Standards*.

We have, however, noted a certain compliance matter that we reported to management of the Charter Township of East China, Michigan's in a separate letter dated June 16, 2005.

This report is intended solely for the information and use of the audit committee, administration and the Township Board, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Stewart, Beausaint Whipple".

Certified Public Accountants

June 16, 2005

MANAGEMENT LETTER

To the Supervisor and Members
of the Township Board
Charter Township of East China
St. Clair County, Michigan

As you know, we have recently completed our audit of the records of the Charter Township of East China, Michigan, for the year ended December 31, 2004. In connection with the audit, we believe that a certain change in your accounting procedures would be helpful in improving management's control and the operational efficiency of the Township's recordkeeping system or compliance with laws and regulations. This suggestion is a result of our evaluation of internal accounting controls and procedures and our discussions with management. As noted in our *Report on Internal Accounting Controls*, this weakness was not considered material in relation to the basic financial statements of the Charter Township of East China, Michigan.

Controls over the legal allowability of expenditures

Along with having control systems to prevent and detect fraud and abuse within the Township, it is important that the Township strengthen controls to assure that expenditures meet the legal restrictions imposed on local governments by the State of Michigan.

An important control component for legal compliance controls is awareness. It is important that legal restrictions are communicated not only among staff, but also with board members.

The State of Michigan has provided on its web sites selected references to the Michigan Constitution of 1963, court decisions, opinions of the attorney general and Michigan statutes.

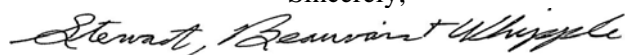
We recommend that these legal restrictions be communicated among the staff and the Charter Township of East China Board.

This condition was considered in determining the nature, timing, and extent of the audit tests applied in our audit of the December 31, 2004 financial statements. We have not considered internal control since the date of our report. It is important to remember that management is responsible for the design and implementation of programs and controls to prevent and detect fraud.

This report is intended solely for the information of the audit committee, administration and the Township Board of the Charter Township of East China, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our examination. We are available to discuss any or all of these conditions with you and to provide assistance in the implementation of improvements.

Sincerely,



June 16, 2005